Attachment to
AD-002(k)

Exelon

Welcome Change.

OFFICIAL FILE
I.C.C. DOCKET NO. 01-0143
Ares Cross Exhibit No. 83
Witness
Date 11/15/01 Reporter CB

Exelon Corporation 2000 Annual Report

ST 0001303

Notes to Consolidated Financial Statements

Exelon Corporation and Subsidiary Companies
(Dollars in millions, except per share data unless otherwise noted)

Rate Reductions and Caps The Illinois restructuring legislation also provided a 15% residential base rate reduction effective August 1, 1998 with an additional 5% residential base rate reduction to be implemented in October 2001. Notwithstanding the rate reduction and subject to certain earnings tests, a rate freeze will generally be in effect until at least January 1, 2005. A utility may request a rate increase during the rate freeze period only when necessary to ensure the utility's financial viability. Under the Illinois restructuring legislation, if the earned return on common equity of a utility during this period exceeds an established threshold, one-half of the excess earnings must be refunded to customers. The threshold rate of return on common equity is based on the 30-Year Treasury Bond rate plus 8.5% in the years 2000 through 2004. Earnings for purposes of ComEd's rate cap include ComEd's net income calculated in accordance with generally accepted accounting principles and may include accelerated amortization of regulatory assets and the amortization of goodwill. As a result of the Illinois restructuring legislation, ComEd has recorded a $385 million regulatory asset that it expects to fully recover and amortize by the end of 2003. The utility's earned return on common equity and the threshold return on common equity for ComEd are each calculated on a two-year average basis. The earnings sharing provision is applicable only to ComEd's earnings. ComEd did not trigger in 2000 and does not currently expect to trigger the earnings sharing provisions of the Illinois restructuring legislation in the years 2001 through 2004.

PECO In 2000, the phased process to implement competition in the electric industry continued as mandated by the requirements of the PUC's Final Restructuring Order.

Customer Choice The PUC's Final Restructuring Order provided for the phase-in of customer choice of electric generation supplier (EGS) for all customers: one-third of the peak load of each customer class on January 1, 1999; one-third on January 2, 1999; and the remaining one-third on January 1, 2000. The Final Restructuring Order also established market share thresholds to ensure that a minimum number of residential and commercial customers choose an EGS or a PECO affiliate. If less than 35% and 50% of residential and commercial customers have chosen an EGS, including residential customers assigned to an EGS as a provider of last resort default supplier, by January 1, 2001 and January 1, 2003, respectively, the number of customers sufficient to meet the necessary threshold levels shall be randomly selected and assigned to an EGS through a PUC-determined process. On January 1, 2001, the 35% threshold was met for all three customer classes as a result of agreements assigning customers to New Power Company and Green Mountain as providers of last resort default service. At December 31, 2000, approximately 18% of PECO's residential load, 46% of its commercial load and 42% of its industrial load were purchasing generation from an alternative generation supplier.

Rate Reductions and Caps Under the Final Restructuring Order, retail electric rates were capped at year-end 1996 levels (system-wide average of 9.96 cents/kilowatt-hour (kWh)) through June 2005. The Final Restructuring Order required PECO to reduce its retail electric rates by 8% from the 1996 system-wide average rate on January 1, 1999. This rate reduction decreased to 6% on January 1, 2000 until January 1, 2001. The transmission and distribution rate component were capped at a system-wide average rate of 2.98 cents/kWh through June 30, 2005. Additionally, generation rate caps, defined as the sum of the applicable transition charge and energy and capacity charge, will remain in effect through 2010.

On March 16, 2000, the PUC issued an order authorizing PECO to securitize up to an additional $1 billion of its authorized stranded cost recovery. In accordance with the terms of that order, PECO will provide its retail customers with rate reductions in the total amount of $60 million beginning on January 1, 2001. This rate reduction will be effective for calendar year 2001 only.

ST 0001374